RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 31, 1996 **LETTER 1205**

RIGHT NOW there's more nonsense than usual flying around regarding the stock market, so let's talk some common (or may I call it uncommon) sense.

(1) Everybody is searching for certainty in this business, but the eternal tragedy of Wall Street is -- that *there's never any certainty.*

(2) But you still demand certainty? Let me tell you that in my experience, the more cock-sure the analyst, the bigger the quack.

(3) Bear markets are relatively rare, but they do happen. Once a bear market is underway, there isn't a man or woman on God's green earth who knows how far it will carry. In 1974, with the Dow at 577, was there anyone alive who envisioned the Dow rising to near 6,000 by 1996?

(4) Fact -- we have *not* received an orthodox Dow Theory bear signal, but the market can go down a good distance without one. Or a bear signal can come late.

(5) Fact -- nothing in Dow's Theory tells us to wait for a primary bear signal before selling. The essence of Dow Theory (as I have emphasized over and over again) is **VALUES.** This market has been flagrantly overvalued for years. Therefore, veteran Dow Theorists have been largely out of stocks and relatively unscathed by the damage that has been done in 1996 so far.

(6) Question: "If I haven't sold stocks up to now, should I sell?" Answer: I honestly don't know. I've told all my subscribers *what I have done as far as my own position is concerned.* I've been out of stocks. What more could I say? And by the way, how many other analysts that you follow or know of have revealed their own personal investment position?

(7) Question: "Could the market's 1996 action simply be a correction in an ongoing bull market?" Answer: Certainly it could, since we haven't had a classic bear signal yet, but then again it could also be the *beginning* of a primary bear market. My old friend, Bob Prechter of Elliott Wave fame, thinks the current weakness will develop into the grand-daddy of all bear markets with the Dow ultimately breaking below 1,000. Would I stake my life on Bob being proved wrong? I would not. Would I bet my home and Harley that he is right? No, I wouldn't.

(8) Question: "I note that a few well-known analysts who have been bullish up to recently suddenly turned bearish and have issued 'sell signals.' Won't these people have an influence on the market?" Answer: Yeah, they may have an influence on the market -- for an hour or so. But the point is that analysts are human like you and me, and any analyst's first instinct is to save his posterior.

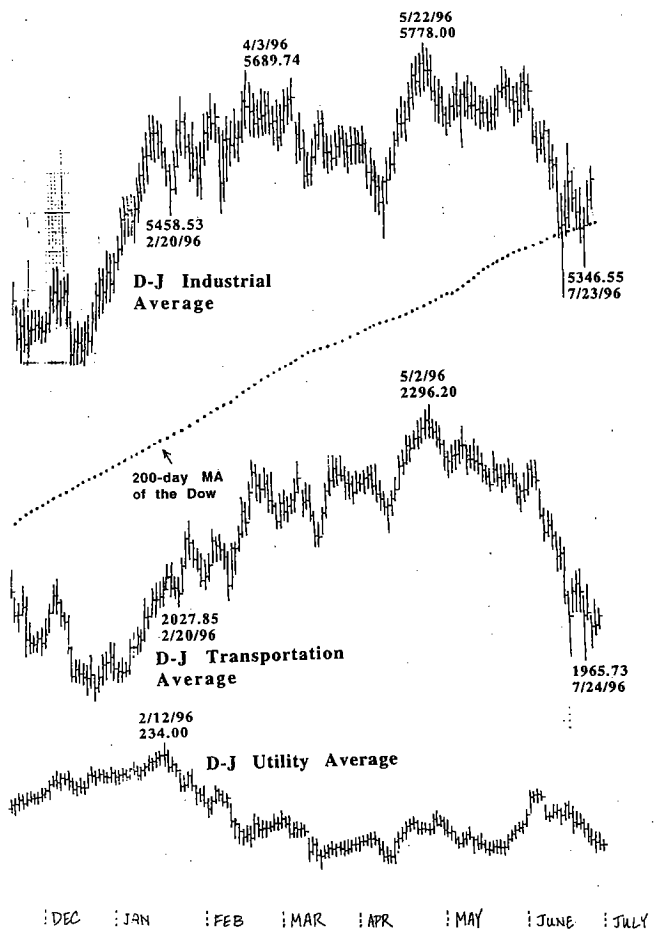
(9) Question: "What would you think if the market turned around and the Averages, as per 1987, marched to new highs?" Answer: You and I know that "the market can do anything." However, my answer is (a) I don't think that's going to happen, and (b) if it did I would be amazed.

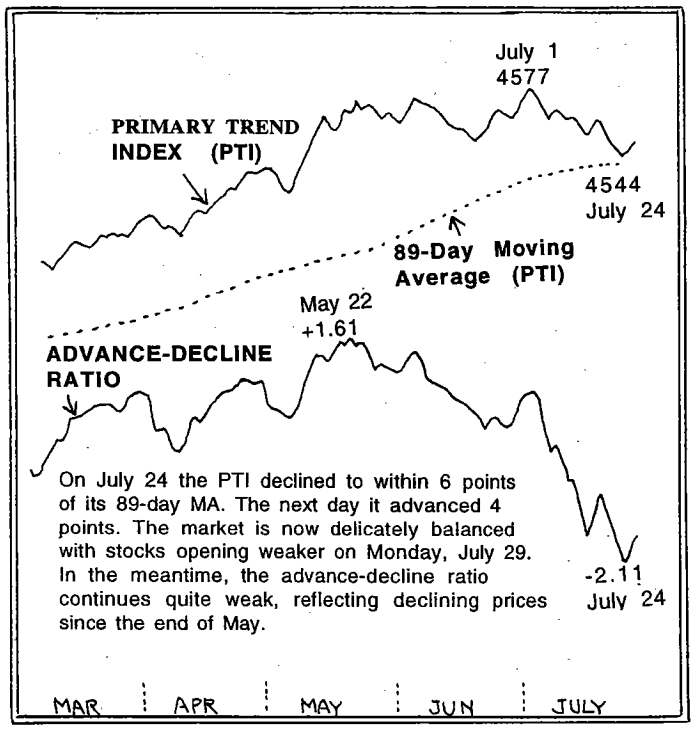
(10) Question: "What do you think has caused the market to head south?" Answer: The reason for any major market move is usually not known until months after the event. But if I had to GUESS, I'd say: (a) large interests believe the *best* for the economy and corporate profits has been seen, and for months these large interests have been gradually bailing out of what they perceive as a flagrantly overvalued market; (b) the stock market could be discounting disappointing earnings ahead with the possibility of a recession starting before the end of the year; (c) the stock market might have declined to protect itself against what looks like four more years of Mr. Clinton.

July 19 DJIA 5426.82; PTI 4550; A-D Ratio -1.08
July 26 DJIA 5473.06; PTI 4544; A-D Ratio -1.64
Dow Yield: 2.28%; Dow Price/Earnings: 17.2
Dow 200-day MA: 5363; Dow 30-day MA: 5560
Dow Times Book Value: 4.09; PTI 89-day MA: 4529
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 393.09; Gold-PTI: 519

(11) Question: "Will the fact that stocks are so widely distributed be a factor if we go into a bear market or even a severe correction?" Answer: I've said all along that I don't like the fact that so many Americans are loaded with stocks or mutual funds and are treating their holdings as savings. Stocks feel like savings in a bull market. In a bear market, they feel like the wrath of God.

(12) Question: "Suppose I sell most of my stocks and then the market turns around and heads for new highs? What do I do then?" Answer: You'll probably kick yourself -- hard. But the loss of potential profits is a hell of a lot different than the loss of hard-earned assets -- as any veteran investor will tell you. I've written many times that the ultimate sin in investing is to take LARGE losses. I've never said that missing potential profits was a sin.




July 1
4577
PRIMARY TREND
INDEX (PTI)
4544
July 24
89-Day Moving
Average (PTI)
May 22
+1.61
ADVANCE-DECLINE
RATIO
On July 24 the PTI declined to within 6 points of its 89-day MA. The next day it advanced 4 points. The market is now delicately balanced with stocks opening weaker on Monday, July 29. In the meantime, the advance-decline ratio continues quite weak, reflecting declining prices since the end of May.
-2.11
July 24
MAR
APR
MAY
JUN
JULY

(13) Question: "I note that a great many individual stocks have already suffered major declines. And many whole groups have taken huge hits. Doesn't that kind of action take the place of a general correction?" Answer: It could, but don't bet on it. A real correction or a primary bear market always shows IN THE AVERAGES. A large number of individual stock collapses could merely act as an advance warning of a full-fledged correction or a bear market to come. By the way, the damage to the Averages, so far, has only been minimal (this becomes obvious if you study any long-term chart of the Averages).

(14) Question: "In interviews on TV you hear a good many analysts saying that they don't see any recession on the horizon, therefore, the market should behave pretty well over coming months. Does that make sense?" Answer: In a word, "no." These analysts never seem to learn that the market looks ahead, usually many months ahead. The economists try to predict the economy and then figure that the market will follow their economic predictions. It doesn't work that way. The market does the "seeing ahead," not the economists.

THE PICTURE: Question: Russell, in the last Letter you drew attention to the important downside points on the D-J Industrials, the Transports and the S&P 500. The Transports had already broken below their April low, and on July 15 both the Dow and the S&P confirmed by violating their comparable May lows. Did those violations confirm a bear market as you suggested?

Answer: I'm going to revise (change) the thinking that I expressed in the last letter. Here's my current thinking. I'm of the opinion that the stock market has put in a *major top,* but at this point I do NOT have enough confirming evidence to PROVE that a primary bear market has started.

(1) This is a difficult and uncertain time to be writing a Letter, but as I've often stated, "They don't run the market for Richard Russell's benefit." At any rate, the following constitutes most of what I think or know at this time.

First, as stated above, on July 15 important support points were decisively violated by the **Dow,** the **Transports** and the **S&P 500.** On July 24 the number of individual issues (NYSE) holding above their 200-day moving average dropped well below the critical 50% level -- to a bearish 38%. The **Nasdaq** on July 16 plunged, wiping out almost all the year's gains and producing 791 new 52-week lows (19% of all the issues traded on the Nasdaq). In all, the mid-July price action was bearish, and the psychology of the public could be in the process of changing.

(2) The equity funds sustained net redemptions two weeks ago. This was blamed on the public's fear-reaction to the massive rise in stock market volatility. Since enormous buying of mutual funds by the public has been one of the mainstays of this bull market, a reversal by the public to the sell side would hardly be encouraging. Obviously, the last thing this market needs is mass disillusionment on the part of investors with an accompanying acceleration of fund redemptions.

(3) Also on the minus side, on July 15 *Lowry's* Buying Power line crossed decisively below the Selling Pressure line, thereby producing what *Lowry's* terms "intermediate trend selling evidence" but what Russell calls a "sell signal."

(4) On the plus side, however, my **Primary Trend Index** has NOT yet rendered a bear signal in that the PTI is still holding above its 89-day moving average (see chart to the left).

(5) *Investor's Business Daily's* chart, featuring the action of 20 growth equity funds, slid to a minus 1.5% on July 24. This means that the average of these 20 leading mutual funds was showing a loss for all of 1996. I imagine this is typical of MOST mutual funds at this time.

(6) Currently, only 10 of the 30 Dow Industrial stocks are holding above their 144-day moving averages. The 11 stalwarts are Allied-Signal, Boeing, Chevron, Coke, Exxon, GE, IP, JP Morgan, Philip Morris, Texaco, Woolworth.

(7) Now lets review some Dow Theory -- this discussion may be a bit complex, but please try to follow it. **First, let me go over what an orthodox Dow Theory bear signal looks like.** We'll take a theoretical example.

First, the two Averages, Industrials and Transports, advance to new bull market highs. Then a decline lasting at least 2 to 4 weeks or more occurs. Following that decline, the Averages start up again. If, on this renewed advance, one or both Averages fail to record new highs -- and they then turn down, at that point the picture becomes critical. For on that decline if both Averages break below their preceding low points a bear signal is rendered.

So it's true that as this is written we have not received an orthodox Dow Theory bear signal. If or when we do receive a true Dow Theory bear signal, it will be reported here.

Conclusion: I do think that the stock market is putting in a major top. But remember, the bull market started back in October 1974, which makes it the oldest bull market in history. A 22-year bull market is not going to roll over and die in a matter of a few weeks or even a few months. Therefore, it appears to me that all of the year 1996 so far, is part of one huge, developing top.

The high-closings for the bull market are **5778.00** for the D-J Industrials, **2296.20** for the D-J Transports and **678.51** for the S&P 500. So if you remain bullish you've got an interesting challenge, and the challenge can be expressed as follows: "Can those bull market highs be surpassed? If they can be surpassed, the bull will have a new lease on life."

Question: What about your **Primary Trend Index**? You say it has *not* rendered a bear signal.

Answer: That's correct, the PTI on July 24 declined to within 6 points of its 89-day moving average, then pushed gingerly higher.

The PTI is composed of eight indicators, each based on market *action.* It's the continuing, cumulative, day-after-day action of the PTI which tells the story. If the MAJORITY of these eight indicators continues higher on a *trend basis,* it's almost impossible for the market to do anything but advance. Conversely, if the MAJORITY of these indicators are declining on a *trend basis,* it's a near certainty that the market will be heading lower.

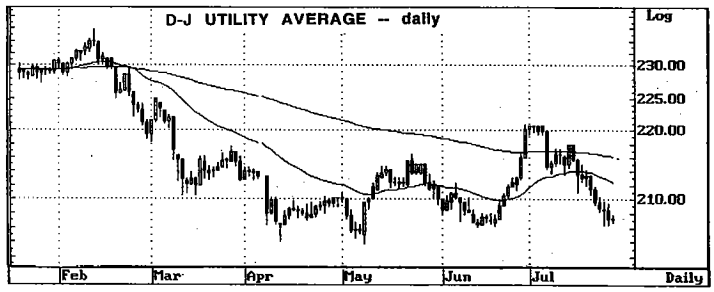
I've been publishing charts of the PTI since 1971. I've seen the PTI lead the market (which it does most of the time), but I've also seen it coincident, and I've seen it lag the market. At this juncture, I'm not going to try to outguess the PTI. I'll just allow it to tell its story, as I have for the past 25 years.

All this is admittedly frustrating, but there's no way of hurrying the PTI. On a cold reading, the PTI has declined to "test" its moving average, and it has not broken below it.

Remember, that the PTI is based strictly on NYSE action. And so far in '96, the action of the AMEX and Nasdaq has been considerably worse than that of the NYSE. The PTI does not take that into account.

INVESTMENT POSITION: Just because there's a question mark in the box does not mean that I'm advocating buying or holding stocks -- because I'm not. The question mark simply means that there's a real question in my mind regarding the primary direction of this market. Believe me, if or when I receive actual *evidence* that the tide has turned, my subscribers will know about it.

The safest place to be right now is in Treasury bills of any maturity up to one year.



MOVING AVERAGES: The action of the moving averages represents one of the oldest market technical studies. A basic value of the MAs is that they help to *clarify* a trend. I've used the moving average for decades; at important junctures the MAs become particularly valuable in that they can render "buy" and "sell" signals.

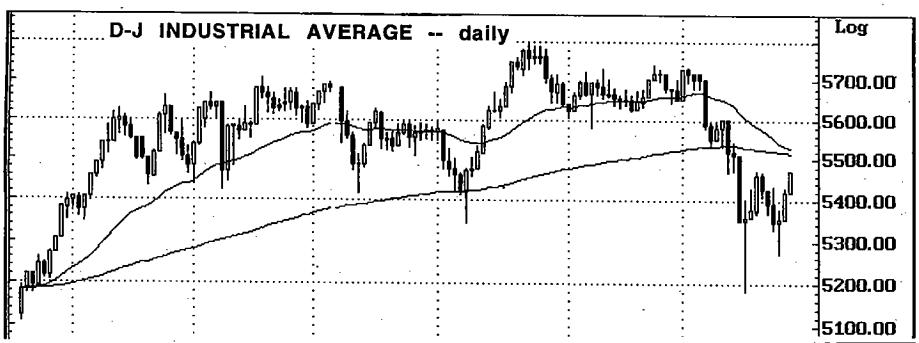
I include charts of four critical averages, the Dow, the Transports, the Utilities and the S&P 500, each with their short-term or **34-day** moving average and their longer-term or **144-day** moving average. I prefer exponential MAs, which means these MAs are front weighted and therefore react more quickly to the latest market action.

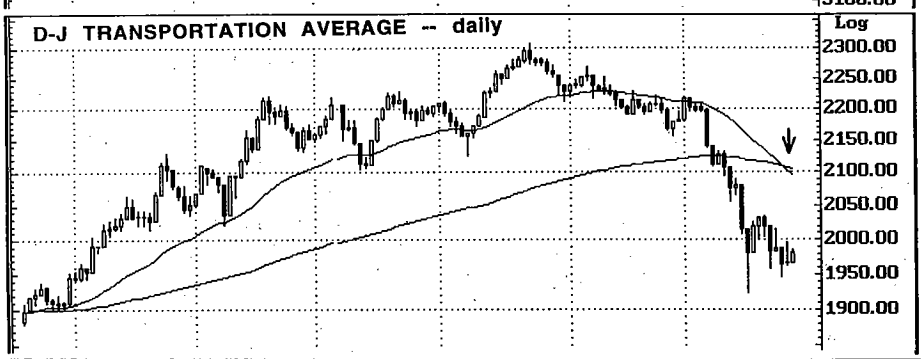
As for interpretation, the *position* of a given item above or below the MAs is important. The trend (rising or falling) of the 144-day moving average is important. Finally, the *position* of the 34-day MA above or below the 144-day MA is extremely important.

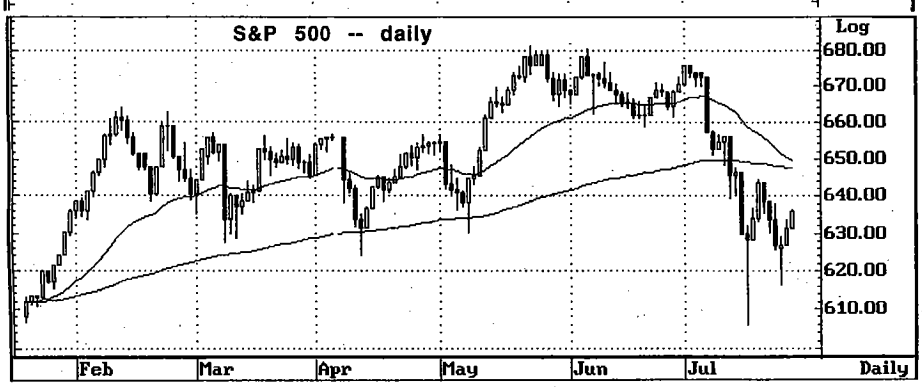
Referring to the longer-term or 144-day MAs on the accompanying charts, three are just beginning to decline, and the Utility MA has been declining for many months. That all four longer-term MAs are now declining is not a good omen. A sell signal was given for the D-J Transportation Average last week on July 24 when its 34-day MA dropped below the 144-day MA. The MAs for the Utility Average gave a sell signal back on February 25.

The weakness just signaled by the Transports is obviously a bearish omen for the market, since it makes a continuation (or reviving) of the bull forces that much more difficult.

I'll continue to present these moving averages studies since I feel they offer one of the best pictures of how the markets are evolving on a longer-term basis.







NOTES & QUOTES: Newer subscribers may wonder why I include this section with every Letter. The reason is that I've always been fascinated with trends, ideas and changes. Maybe my obsession with trends has to do with wanting to "see" the future, maybe it has to do with an abnormal curiosity, I'm not sure. But the older I get, the more I read, the more I ponder, the more I wonder. And I think, why waste it all? That's why "Notes & Quotes" appears here.

* *

The border between San Diego and Tijuana is the busiest border between two nations in the world. It is also considered the most dramatic dividing line between the wealth of a capitalistic country and the poverty of a third world nation. As soon as you leave the US border (25 miles south of here) you enter the squalor of another world. In Tijuana you see both money and grinding impecuniousness. Indian women squatting on the streets with their kids, bars that are raking in big money,

hawkers, everything for sale, people doing whatever it takes to capture the Yankee dollar. With it all, however, I must admit that Tijuana looks a lot better than it did when I first moved here in 1961.

* *

The latest *USA Today/CNBC* poll headlines it, "A Rosy Economic Outlook." They continue, "The consensus of the majority of economists is the economy will remain healthy through 1998. Fifty top economists responded to the survey." As for a recession, 52% believed that the next recession is most likely to begin in the "second half of 1998 or later." **Russell comment:** This isn't that encouraging since the majority of any group is usually wrong about the stock market and the economy. As for a possible recession, it is well to remember that the consensus of economists has NEVER predicted a recession. Recessions always come as a "surprise."

* *

A subscriber from Kentucky sent me this quote. It goes, "When you bet on a sure thing -- HEDGE!" **Russell comment:** "Hey, I knew that."

* *

What's the next wave on the Internet? It's free telephone calls. At the recent PC expo trade show in LA, Microsoft and Netscape and others wowed audiences with software offering extremely clear voice quality over the Internet. Said Jim Barksdale, CEO of Netscape, "In 18 months and three days we've distributed 38 million copies of our software. This growth is unprecedented in computer industry . . . I absolutely see the computer replacing the telephone and the TV; it is inexorable." **Russell comment:** Is that why all the phone companies are trying to get into the computer and Internet business? You bet it is.

In the meantime, French Internet guru Christian Huitema (author of "And God Created the Internet") states that the Internet will focus on three areas, commerce, network computing and real-time multimedia. Says he, "You will have virtual communications with everyone on Earth; 10 billion brains, minds linked together -- that's the Internet of the future." Future generations of computers, says Huitema, will shift information over fiber optic cables at the rate of a gigabit -- 1 billion pieces of information a second, making it possible to convey three dimensional pictures and even smells in real time. First, however, a lot of social, economic and development problems will have to be solved. The vast majority of people today have no access to cyberspace. They can't even call to the next village, let alone send e-mail to a congressman.

* *

New York, I love it, but I can't take the hassle and discomfort any more. Now, instead of fighting the crowds and prices and inconveniences of Gotham, I just subscribe to the weekly *Time Out* magazine. This mag is really outstanding, packing a huge amount of information in its 100 pages. Movies, shows, art, restaurant reviews, sophisticated articles, the works. You really get a feel for what's going on in the BIG city, and all for $39.95 at (800)457-4364. P.S. I don't get a nickel on any of my recommendations, and the mag doesn't even know I'm giving them a plug.

* *

According to the *LA Times*, Arnold Schwarznegger is reported to be receiving a $25 million fee for six weeks of work as the lead villain in "Batman and Robin." This kind of nonsense is what's killing the movie business. No wonder everybody's trying to get into animation where there are no high-priced stars to sop up the profits.

* *

No, no, Apple, please stay afloat. I love my Mac PC, and I don't know what I'd do without it (I use Microsoft Word software). Despite my pleas, Apple stock sank to a 10-year low below 20 last week, then bounced on better news of sales. Without the Mac, I might have to go back to my old Royal typewriter.

* *

Some say that LOVE runs the world. Others, more cynical, insist that money runs the world. The second group could be right. Today FOREX (foreign exchange) traders swap currencies at the fantastic rate of $1.2 trillion a day. That $1.2 trillion is equal to the reserves of ALL the world's central banks. No wonder the currency traders have become all-powerful. If they don't like what a given country is doing, they dump that country's currency, and as everyone knows, when your currency goes down the drain, you're that much poorer (and of course, then the politicians feel the pressure and the anger).

* *

The football training camps have opened, and the La Jolla training camp for the San Diego Chargers is reputed to be the pleasantest of all. Believe it. The training camp is situated on the beautiful UCSD campus, half a mile from the Pacific. And it's all free -- you bring a sandwich and you sit in the sun watching these great athletes go through their paces. It reminds me of the fellow who said, "I love work, I could watch it for hours." The marvelous thing about football or any other sport is that it is not real life (except for the owners and players). In other words, despite each successive season of fascination and frustration and cheering and booing, the *outcome really doesn't matter.*

* *

The Dole campaign appears to be falling apart. Nobody knows what Dole stands for, and I'm not sure Dole does. He wants a lower, "flatter" tax for Americans. C'mon, what does that mean? He's against abortion, but not really. He has a different foreign policy than Clinton's, but what is it? Republicans are pulling their hair out wondering what to do about Dole. A few deep thinkers are saying, "Let Dole be Dole." But that's just the trouble, Dole is being Dole. Could the GOP pick another candidate at an "open convention" here in San Diego? They could, but it will never happen. Women (the swing vote) are largely against Dole and his abortion stand. It now appears sure that Dole will lose California, hardly a good omen for the ex-Senator. Writes the *Economist* (July 20): *"If there has been one consistent feature of this election year, it has been the awfulness of Mr. Dole as a campaigner."* Writes Robert Beckel in the *LA Times* (July 21), *"As to the message, the reason Dole can't seem to stay on it is that there is no 'it' there."* Writes the London *Financial Times:* (July 18)*"Whichever way he turns, and he has turned in a number of directions since embarking on his increasingly forlorn-looking campaign for the US presidency, it seems Mr. Dole can do nothing right."*

* *

Few people are aware of it, but fruit growers depend heavily on both honey bees and wild bees to pollinate the flowers that produce the nation's fruit. In California alone 50 crops depend on bees to buzz over the pistols and stamens and thereby pollinate. But a disaster has struck. In the last decade the wild honeybee population has dropped 90 to 95%. And managed colonies are not doing too much better. The culprit -- two strains of tiny mites. These mites crawl into the bees' windpipes and ultimately kill them. Scientists are rushing to come up with an answer. The best hope is a plastic strip which contains a poison that kills the mites but not the bees. At any rate, look for higher priced fruit in the future and a lot of dead bees.

* *

In an interesting piece entitled, "The Power of One," *Self* magazine (August) notes that an increasing number of women are opting not to get married. The article states, "More women are taking this journey in the 1990s than at any time in history. As more women graduate from college and work full-time, the average age of first marriage has crept upwards from 20.1 in 1956 to 24.5 in 1993. That makes some 7.6 million American women between the ages of 25 and 44 who have never been married." Equally striking, a great percentage of women who marry will eventually say "bye-bye" to hubby; according to the census, half of marriages end in divorce, and among women over 65, just 39% are married and living with a spouse. **Russell comment:** My dear old mom, who lived to 92, lost my dad when she was only 56. Mom never remarried although she had many suitors and many opportunities. One day I asked her why she didn't embark on a second venture. Replied Mom, "Most men aren't worth the trouble." I guess Mom knew what a lot of women today are just finding out.

* *

Here in San Diego the preferred drug is "speed" or "meth" or "ice" which is simply methamphetamine. But the new drug of choice throughout the nation is heroin, which is fast taking over from cocaine. Now a new movie (made in Scotland of all places and for a paltry $2.6 million) has created a sensation in Britain and has

now come to the US. It's called "Trainspotting," and *Variety* writes it up as "scabrous, brutal and hip, a Clockwork Orange for the '90s." The film is about four crazies who move in and out of the drug scene. The critics are both aghast and fascinated by this film; it's now playing in NYC and LA (and soon to come to a theater near you). The film seems to capture the nihilistic, violent "I don't give a damn" attitude and philosophy that has captured an increasing portion of the world's youth. Like rock-and-roll and rap and the newer body-piercing, drugs have always been synonymous with anti-establishment and anti-government. When I was a kid jazz (which then was largely black music) sufficed for the anti-establishment youth culture. Today kids have taken their revolt a lot further -- into violence, drugs, and rampant sex. The world changed after World War II, I know, I saw the world before the war, during the War, and I've been looking at it ever since.

* *

Respected syndicated writer David Broder believes the Internet could bring about a major change in politics. He believes a lot of thinking types use the Internet, and if so they will start thinking about the Libertarian party and its "startling" ideas. The first Libertarian show, called "Damn Right," has appeared. It's been a hit, and says one employee, "I love these people; they are different, but they have a lot to say. They are creating a community of their own on the Internet, and the rest of the country will follow."

The Libertarian party calls for cutting the federal government back at least 90%, abolishing the income tax, scrapping offensive military weapons and overseas bases, eliminating the FBI and the IRS and ending what Libertarian presidential candidate Harry Browne calls "the insane war on drugs." Writes Broder, "They regard the Democrats as hopelessly addicted to big government, Republicans as frauds who promise but don't deliver relief from Washington, and Ross Perot's party as mere tinkerers with Leviathan." **Russell comment:** Believe it or not, the US operated for decades with no income tax. The government is now engaged in thousands of enterprises that were never suggested or indicated by the Constitution. Sure the world is a lot more complicated today. But much of the complication has been brought on by a government that is obsessed with power, control and a wish "to help us."

* *

The July 16 *WSJ* carries a front page article on the various towns and cities that are specializing and making big money on the treatment of various diseases. States the *Journal*, "The stakes are highest in the treatment of heart disease, the nation's costliest illness and its number one killer. Each year about 800,000 Americans die of it, even as the country spends billions trying to arrest the damage. Billions of dollars could be saved, some researchers contend, if heart doctors could identify the best practices to follow whose standards are nationwide. Instead, each medical community has its own norms." **Russell comment:** It's true that billions of dollars are involved in the treatment of diseases, and heart disease tops them all in terms of money spent. Open heart surgery can cost up to $65,000, angioplasty can cost $8 to $10 thousand, a "stent" can cost as much as $35,000. In other words, there is huge money in heart treatment, mainly in surgery. Me, I've done it all -- quintuple by-pass, angiograms, a stent. And finally EDTA chelation. Is chelation a legitimate treatment? Does it actually help heart victims? I think it does. But there's a problem, there's no real money to be made in chelation (and the insurance companies won't pay for it). Chelation costs around $85 a session. I take one treatment a month. Now I very seldom get angina (heart pains) -- I don't know why that is -- unless it's chelation. Let me put it this way -- you can see why the medical establishment isn't interested in chelation. There's just no money in it. How about the drug companies? There's no money to be made in the chemical EDTA, it's not patented. So forget the drug companies. Am I being too cynical? Would doctors ignore chelation, even if it works? Why hasn't the government done double-blind tests on chelation? Question: What could the AMA tell the millions of heart patients who have spent millions -- if it was proved that chelation works? At any rate, next time your cardiologist tells you chelation is useless, ask him if he's just repeating hearsay or whether he's actually had any experience with it.

* *

In almost every developed nation the split between rich and poor is widening. Why? Thomas Friedman in a *NY Times* op-ed gives his answer, namely, the split is widening because of "globalization -- the integration of free markets, financial flows, trade and information -- which has established a very powerful set of rules and standards for how countries have to behave if they are going to attract capital to grow . . . Once a country opens itself up to the global market . . . those of its citizens with the skills to take advantage of it become the winners and those without become losers or left behinds." Friedman adds that in many nations there are those who fight the trend towards globalization, and he mentions Pat Buchanan in the US and the Communist Party in Russia.

* *

The official lies continue regarding the federal deficit. The latest figures show that as of last week the national debt was $5.158 trillion. Exactly one year ago it was $4.925 trillion meaning that we have added $233 billion to the debt over the last 12 months. Despite what you hear from your government, this is the actual deficit. Surplus revenues from programs like Social Security and military and civil service retirement are used to cover roughly $100 billion in government overspending. What's worse, the government is confiscating billions from trust funds instead of putting aside hundreds of billions to meet the future liabilities of these programs. Barring drastic changes which neither the Democrats nor the Republicans are advocating, these liabilities will continue to build. Thus, around 15 years from now 76 million baby boomers will start retiring and screaming for their money, only to discover that the money won't be there -- but then, neither will Dole or Clinton.

* *

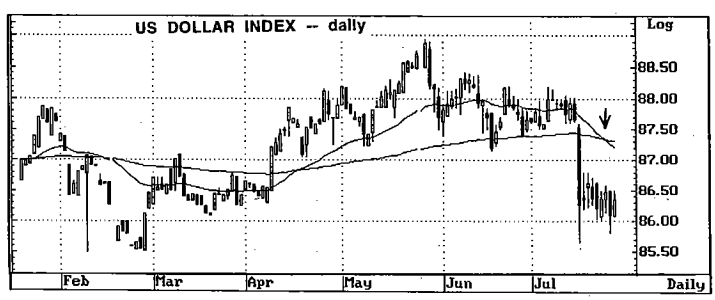
Speaking of bankruptcy, I guess you saw the salaries that the free-agency basketball stars have just garnered. Shaquille O'Neal -- $120 million over 7 years. Juwan Johnson -- $98 million over 7 years. Gary Payton -- $85 million over 7 years. Allan Houston -- $56 million and on and on. Of course there's a price to pay and the fans will pay it. Ticket prices will be going up across the board for Shaquille's Lakers -- general admission rose from $9.50 to $21. Indiana Pacer President Donnie Walsh was asked if there was a cap on the cap. "Yeah," said Walsh, "it's called bankruptcy." **Russell comment:** The heck with the admission price, let the good times roll.

* *

Togetherness: It looks increasingly as though Europe will be united, monetarily and even militarily. Consider this -- an European Brigade is now on active duty. The Brigade is made up of half French, half Germans. If somebody during World War II had told me that in the year 1996 French and German soldiers would be marching side by side in the same brigade, I would have called him "off his rocker."

* *

The dollar has turned weak again. Why? For one reason, booming US trade deficits threaten to send a torrent of excess dollars into the currency markets. Longer-term: the US's net overseas liabilities now equal 10% of its GDP. The central banks of Europe and Japan are loaded with dollars, and they have been diversifying out of the greenbacks. Twenty years ago 80% of the world's currencies were held in dollars. Today that percentage is down to 60%. All these dollars that are being "exported" must be absorbed by the markets, putting steady long-term pressure on the buck. The dollar gained 23% against the yen last year and pushed up another 5% this year, before it turned weak. Many think the dollar's long period of "undervaluation" has now ended.



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The frenzy connected with the stock market continues in many publications, as these four clips (all from the latest issue of the widely-circulated *Money* magazine) demonstrate. Fifteen years ago the SEC would probably have cracked down on these flagrant headlines. Times change.

Six searing stocks the hot funds love

I'm 24 and earn $23,000. How can I invest $10,000 so I can quit work at 45?

A global star who's up 18% names four small stocks that could rise 50%

WE RATE TODAY'S HOTTEST FUNDS UP 30%...40%...50%

SMOKEY THE BULL says: "Don't invest another dime until you read...

* *

The US is the largest supplier of arms in the world. Most are sold for profit to non-democratic governments that are responsible for countless human rights violations. Developing nations now spend $220 billion a year on their military weapons, this while their people remain without enough food, medicine and decent education. This paradox is one of the great ironies and tragedies of our times.

* *

Last week a storm (which started in Tahiti) impacted on the California coast. The result was spectacular -- 15-foot rolling waves that looked like living walls of water. Wind-'n-Sea beach where I live was lined with cars and people watching the show. The braver surfers were out there, riding the mountains of water amid the shouts of the crowd. Huge waves, bright sunlight, lines of wide-eyed people, that's California for me.

* *

You know the old story -- "God tipped the US and all the crazies slid into Southern California." Believe it. Here's a clip from the July 26 *San Diego Union:*

Bizarre incident at beach

A 270-pound man came out of the ocean yesterday morning naked, donned a crown of seaweed and proclaimed himself King Neptune, according to police.

The man, suspected of being high on methamphetamine, was volatile and hostile and threatened people on the beach in the 300 block of South Strand around 7 a.m., police said. They believe he may have been hallucinating at the time.

An officer who had known the suspect, identified as Charles Dukes, since high school calmed him down, and then transported him to a nearby hospital.

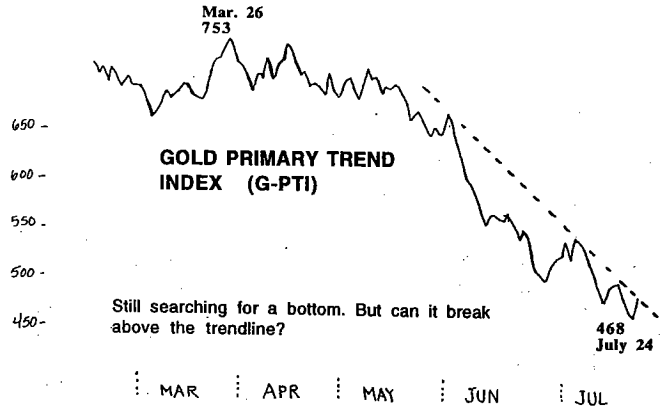
* *

THE HARLEY MARKET: Readers may be happy to hear that I just sold two of my three Harleys (I'm keeping one). I put an ad in the local paper. Next day eight people came to look at the bikes. They stared, debated, scratched their chins. Half an hour later two New Zealanders arrived. "How much do you want for both," asked one of the new arrivals. "Twenty-six thousand for the two," I told him. The lead New Zealander thought for about 30 seconds and said, "Sold, and I'll pay you in cash." Which he did. One of the bystanders complained, "I would have paid you $28,000 for the two." "Thanks," I added, "but you're late, they're gone." (By the way, I paid $10,500 for one in 1990 and $13,000 for the other in '91.)

* *

BASEBALL CARDS: This fad has collapsed, or at least the prices have. Whether it was the baseball strike of a few years ago or the flooding of the market by a herd of new card manufacturers, whether too many new categories inundated the market (football cards, basketball cards, boxing cards, famous criminals, ad nauseam), or whether it was just another mania that crashed, no one can be sure of. At any rate, the speculators have been killed, prices have caved in, and the cards have been going back to their rightful owners, namely the serious, died-in-the-wool, collectors.

GOLD: Gold has been a disappointment, and the gold shares have been even more of a disappointment. You can't blame my G-PTI, it's been telling the real story all along, even though it's one gold-

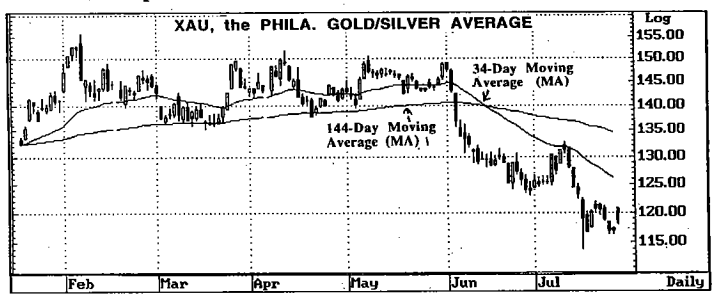


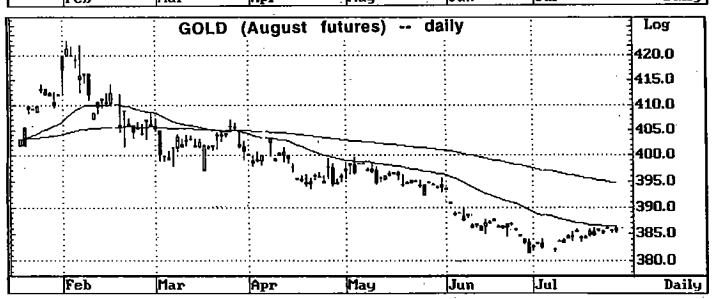
philes didn't want to hear. The G-PTI, as you can see, has been sagging ever since its late-March high.

I've included a chart of the Phila. Gold/Silver Average (XAU), which banged against the 150 ceiling four times during March to June, then sagged to a July low of 116.

The chart of gold (Aug. futures) shows a steady decline in the metal from the February 2 peak of 423 down from the June 28 low of 381. This was a drop of 9.9% vs. the XAU's drop of 22%.

What happened with the gold shares? My opinion -- the gold market doesn't see any inflation on the horizon (more like deflation). Thus, gold, the metal, seems to be priced "about right" whereas the gold shares were selling, on average, at rich valuations. Note: the charts include the 144-day MAs and the 34-day MAs. Gold, the metal, is pressing against its 34-day MA which now stands at 386. Thus, anything above 387 (Aug. futures) would at least be a plus. "To walk a mile, you have to take that first step."





LATE NOTES: On the rally off the July 23-24 lows, the Transports have been notably weak (see chart on page 3). The S&P rally has also been unimpressive. So far, then, it's been pretty much a blue-chip (Dow) advance.

The LONGER the Averages hold above the July lows, the MORE IMPORTANT those lows become. For instance, if the Industrials and Transports were now to *rally* for two or three weeks or longer -- and then turn down, and BOTH Averages were then to break below their July 15 lows, that would constitute a primary bear signal. The July 23-24 lows for the Dow were **5346.55,** for the Transports **1965.73** (and for the S&P 500 the low was **626.64**).

NEXT MAILING: Aug. 13, 1996